

PORTAGE - BASE LAKES AREA WATER
AND
SEWER AUTHORITY

ANNUAL FINANCIAL
REPORT

FOR THE YEAR ENDED MARCH 31, 2008

PORTAGE - BASE LAKES AREA
WATER & SEWER AUTHORITY

WATER & SEWER AUTHORITY BOARD

Thomas Ehman
Richard Kleinschmidt
George Majoros
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WATER & SEWER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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August 29, 2008

Portage - Base Lakes Area
Water and Sewer Authority
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INDEPENDENT AUDITORS' REPORT

Honorable Authority Members:

We have audited the accompanying financial statements of the Portage - Base Lakes Area Water and Sewer Authority as of and for the year ended March 31, 2008. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Portage - Base Lakes Area Water and Sewer Authority, as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Pfeffer, Hanniford & Palka, P.C.

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MANAGEMENT
DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis March 31, 2008

Within this section of the Portage - Base Lakes Area Sewer & Water Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended March 31, 2008. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a sewer system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$8,334,737. This is a \$166,799 decrease over last year's net assets of \$8,501,536.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>3/31/2007</u>	<u>3/31/2008</u>
Current and other assets	\$ 328,457	\$ 262,436
Reserved assets	989,165	871,581
Capital assets, net	<u>7,198,213</u>	<u>7,217,731</u>
Total assets	8,515,835	8,351,748
Accounts payable and other current liabilities	<u>14,299</u>	<u>17,011</u>
Net assets:		
Invested in capital assets, net of related debt	7,198,213	7,217,731
Unrestricted	<u>1,303,323</u>	<u>1,117,006</u>
Total net assets	<u>\$ 8,501,536</u>	<u>\$ 8,334,737</u>

Summary of Changes in Net Assets

	<u>3/31/2007</u>	<u>3/31/2008</u>
Operating revenues	<u>\$ 320,831</u>	<u>\$ 300,826</u>
Operating expenses		
System operations	370,611	286,998
Depreciation	<u>204,222</u>	<u>232,384</u>
Total operating expenses	<u>574,833</u>	<u>519,382</u>
Operating income	(254,002)	(218,556)
Non-operating revenues, net	<u>59,704</u>	<u>51,757</u>
Net (loss)	(194,298)	(166,799)
Beginning net assets	<u>8,695,834</u>	<u>8,501,536</u>
Ending net assets	<u>\$ 8,501,536</u>	<u>\$ 8,334,737</u>

Users of the system remained relatively unchanged for the year. Operating expenses decreased over the prior year, as non-recurring repairs and maintenance for various pump stations were performed during the year ended March 31, 2007. Net non-operating revenues decreased, and cash has decreased.

As a result, net (loss) decreased from \$194,298 for the year ended March 31, 2007 to \$166,799 for the year ended March 31, 2008.

Capital and Debt Administration

As of March 31, 2008, the Authority had only no long-term debt outstanding for the sewage treatment system.

The Authority had a couple of small construction projects finished during the year. Total assets put into service during the year ended March 31, 2008 were \$320,825.

Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain strong. The Authority continues to save part of its quarterly charge for future capital replacement some of which was used in 2007/2008. As of March 31, 2008 the cash saved for capital replacement was \$871,581 and growing.

The Authority faces challenges in the future, as well. Rising energy and fuel costs pose challenges to both the Authority and its customers. In addition, an aging system will require increasing repairs and replacement as time goes on.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 10405 Merrill Road, P.O. Box 726, Hamburg, MI 48139.

BASIC
FINANCIAL
STATEMENTS

PORTAGE - BASE LAKES AREA WATER AND SEWER AUTHORITY
STATEMENT OF NET ASSETS
MARCH 31, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 155,561
Accounts receivable - billings	104,137
Prepaid expenses	<u>2,738</u>

Total current assets \$ 262,436

RESERVED ASSETS

Cash and cash equivalents - equipment replacement 871,581

PROPERTY, PLANT AND EQUIPMENT

Land	115,282
Sewer system	10,380,485
Operating equipment	199,223
Office equipment	<u>4,950</u>
	10,699,940
Less accumulated depreciation	<u>(3,482,209)</u>

Net property, plant and equipment 7,217,731

Total assets 8,351,748

LIABILITIES

CURRENT LIABILITIES

Accounts payable - trade 17,011

NET ASSETS

NET ASSETS

Investment in capital assets, net of related debt	7,217,731
Unrestricted - sewer	<u>1,117,006</u>

Total net assets \$ 8,334,737

The accompanying notes are an integral part of these financial statements

PORTAGE - BASE LAKES AREA WATER AND SEWER AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 2008

OPERATING REVENUES

Sewer billings	\$	300,826
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OPERATING EXPENSES

Audit and accounting	\$	6,500
Billing charges		3,609
Permit fees		4,563
Contracted services		21,600
Depreciation		232,384
Per diem fees		2,250
Insurance		22,551
Miscellaneous		177
Miss Dig		980
Utilities		49,707
Repairs and maintenance - grounds		3,707
Repairs and maintenance - equipment		62,527
Sewer service - non contract		17,418
Sewer service - contract		73,260
Supplies		1,418
Telephone		6,665
Drywell expenses		525
Legal		947
Small equipment		8,594

Total operating expenses		<u>519,382</u>
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Operating (loss)		(218,556)
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NON-OPERATING REVENUES

Interest income - reserved		38,188
Interest income - unrestricted		8,335
Miscellaneous income		<u>5,234</u>

Total non-operating revenues		<u>51,757</u>
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Net (loss)		(166,799)
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Net assets, April 1, 2007		<u>8,501,536</u>
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Net assets, March 31, 2008	\$	<u><u>8,334,737</u></u>
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The accompanying notes are an integral part of these financial statements

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PORTAGE - BASE LAKES AREA WATER AND SEWER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2008

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Receipts from customers	\$ 309,141	
Other receipts	5,234	
Payments to vendors	<u>(286,924)</u>	
Net cash (used in) operating activities		\$ 27,451
CASH FLOWS FROM (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to fixed assets		(251,902)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income - unrestricted	6,715	
Interest income - restricted	<u>39,808</u>	
Net cash from investing activities		<u>46,523</u>
(Decrease) in cash and cash equivalents		(177,928)
CASH AND CASH EQUIVALENTS AT APRIL 1, 2007		<u>1,205,070</u>
CASH AND CASH EQUIVALENTS AT MARCH 31, 2008		<u><u>\$ 1,027,142</u></u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating (loss)		\$ (218,556)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities		
Miscellaneous income		5,234
Depreciation expense		232,384
Changes in assets and liabilities		
Decrease in accounts receivable		8,415
(Increase) in prepaid expenses		(2,738)
Increase in accounts payable		<u>2,712</u>
Net cash (used in) operating activities		<u><u>\$ 27,451</u></u>

The accompanying notes are an integral part of these financial statements

PFEFFER, HANNIFORD & PALKA

Certified Public Accountants

NOTES
TO
FINANCIAL STATEMENTS

PORTAGE - BASE LAKES AREA WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

**NOTE 1 - DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
OF THE REPORTING ENTITY**

The Portage - Base Lakes Area Water and Sewer Authority was established on September 21, 1988, under Act No. 233, Public Acts of Michigan, 1955 as amended. The purpose of this Authority is to acquire, own, improve, enlarge, extend and operate a water supply system, a sewage disposal system, or both. The following units are the incorporating municipal corporations:

<u>Municipality</u>	<u>Interest</u>
Hamburg Township	35.30
Dexter Township	32.47
Putnam Township	24.19
Webster Township	8.04
	<u>100.00</u>

Based on the criteria established by Government Accounting Standards Board (GASB) Statement Number 39, all funds, activities and agencies are included in the Authority's reporting entity.

The Authority Board is composed of two members appointed by the Dexter Township Board and one member appointed by the Hamburg, Putnam, and Webster Township Boards, respectively.

A. SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar reviews; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. MEASUREMENT FOCUS

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

C. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less are considered to be cash equivalents.

PORTAGE - BASE LAKES AREA WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
OF THE REPORTING ENTITY (continued)

D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 40 years for equipment and 5 to 40 years for buildings, structures, and improvements.

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

F. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

G. PREMIUM, AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No such bond discount/premiums or issuance costs were outstanding or issued during the year ended March 31, 2008.

H. INCOME TAXES

As a governmental agency, the Authority is exempt from both federal income taxes and Michigan Single Business Tax.

I. ACCOUNTS RECEIVABLE

Accounts receivable consist of uncollected billings to customers for services provided and revenues earned. The Authority has not recorded an allowance for uncollectible accounts as management believes all such claims will be collected.

NOTE 2 - MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PORTAGE - BASE LAKES AREA WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91 authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 200,000	\$ 200,000
Uninsured and uncollateralized	<u>827,142</u>	<u>826,971</u>
Total deposits	<u>\$ 1,027,142</u>	<u>\$ 1,026,971</u>

The Authority's cash and investments are subject to types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$826,971 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer.

PORTAGE - BASE LAKES AREA WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the Authority for the year ended March 31, 2008 was as follows:

	Balance 4/1/07	Additions	Deletions	Balance 3/31/08
Land	\$ 115,282	\$	\$	\$ 115,282
Sewer system	10,151,462	229,023		10,380,485
Operating equipment	107,421	91,802		199,223
Office equipment	4,950			4,950
Total	10,379,115	320,825		10,699,940
Accumulated depreciation	(3,249,825)	(232,384)		(3,482,209)
Construction in Progress	68,923		68,923	
Capital assets, net	\$ 7,198,213	\$ 88,441	\$ 68,923	\$ 7,217,731

The system is being depreciated over a 50 year period on a straight line basis. Office and operating equipment is being depreciated over a five year period on a straight line basis.

There was no related debt outstanding on the capital assets as of March 31, 2008.

NOTE 5 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a schedule of beginning and ending cash and cash equivalents:

	4/1/2007	3/31/2008
Unrestricted		
Cash and cash equivalents	\$ 215,905	\$ 155,561
Restricted		
Cash and cash equivalents	989,165	871,581
Total cash and cash equivalents	\$ 1,205,070	\$ 1,027,142

PORTAGE - BASE LAKES AREA WATER AND SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 6 - SEWER BILLINGS

The system currently has 1,254 users. During the year the Authority maintained the quarterly charge of \$60.00. The entire \$60.00 is for operation and maintenance. Furthermore, the board made a \$66,130 transfer of operating funds into the funds restricted for capital replacement. It is expected that annual transfers from operating funds to the restricted capital replacement funds will be made going forward.

NOTE 7 - RESERVED ASSETS

The amounts shown as reserved assets are to be used for the replacement and improvement of the sewer system and sewer system components.

NOTE 8 - CONTINGENCIES

The Authority is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of the Authority.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 10 - SEGMENT INFORMATION

Selected financial information is as follows:

Operating	
Revenues	\$ 300,826
(Loss)	\$ (218,556)
Depreciation	\$ 232,384
Total assets	\$ 8,351,748
Total net assets	\$ 8,334,737
Working capital	\$ 245,425

NOTE 11 - RELATED PARTY TRANSACTIONS

The Authority contracts with Hamburg Township, an Authority Member, for accounting and management services. The Authority paid Hamburg Township \$23,600 during the year ended March 31, 2008 for these services.

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August 29, 2008

Portage-Base Lakes Area
Water and Sewer Authority
10405 Merrill Road
P.O. Box 726
Hamburg, Michigan 48139

Honorable Authority Members:

During our audit of the Portage - Base Lakes Area Water and Sewer Authority we came across the following matters that we would like to discuss with you as part of our audit presentation for the year ending March 31, 2008.

The matter which we would like to discuss with you is as follows:

There is a new auditing standard (SAS #112) which we are required to follow as your auditing firm. This new standard relates to more formal communications by us to you regarding significant deficiencies in your internal controls and accounting procedures.

There are certain issues (deficiencies) which were previously considered general comments but under the new standard are now considered significant deficiencies.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's or detected by the entity's internal control.

We consider the following to be material weaknesses of the Authority:

- Historically, the Authority has relied on independent external auditors in the preparation of their financial statements and required disclosures. The Authority has determined that the cost/benefit of preparing the financial statements and disclosures are best served by continuing this practice.
- A lack of segregation of duties exists in the Authority. The Authority may wish to evaluate the cost/benefit of segregating these duties.

The following are other comments and recommendations relating to the Authority's accounting and record keeping procedures:

- Operating losses have occurred for several years, and rates have remained constant over the past several years. With rising energy costs and an aging system the Authority may wish to evaluate its long-term goals, and evaluate the rates being charged to meet those goals.
- Amounts were paid to a homeowner as part of goodwill for a sewer backup. Payments could only be made to a homeowner as part of a settlement or for a reimbursement for damages caused. Form 1099 should have been issued detailing the payment of these funds.

Conclusion

Thank you for your assistance and hospitality toward our firm while conducting the audit of the Portage - Base Lakes Area Water and Sewer Authority.

If you should have any questions, comments or concerns please do not hesitate to call us.

This report is intended solely for the information and use of the Board of Trustees and management of the Portage - Base Lakes Area Water and Sewer Authority and is not intended to be and should not be used by anyone other than the specified parties.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants